22 December 2016

Cheng Tang
ASX Compliance Pty Limited
20 Bridge Street
Sydney NSW 2000

Dear Cheng

Aware Query

We refer to your letter of 19 December 2016 and reply as follows:

1. **When did discussions in regards to the Placement commence and when did those discussions conclude.**

   Discussions commenced with one external party who had offered to lead the placement on 30 November 2016 and they were engaged to arrange the placement on 2 December 2016, a second party was engaged on 6 December 2016. Those two parties arranged the placement after those dates.

2. **Does MED consider the recovery of the blue diamond to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

   No.

3. **If the answer to question 2 is "no", please advise the basis for that view.**

   It is not a commercial stone and is more of geological interest. As the announcement states "Although only a small diamond at 0.124 carats it does demonstrate the potential for valuable coloured diamonds at Merlin and is believed to be the first blue diamond produced at Merlin".

4. **If the answer to question 2 is "yes", when did MED first become aware of the information?**

   N/A

5 **If the answer to question 2 is "yes" and MED first became aware of the information before the relevant date, did MED make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe MED was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps MED took to ensure that the information was released promptly and without delay.**

N/A

6 **Please confirm that the information was not known to the Company prior to discussions in relation to the Placement concluding.**

N/A

7 **Please confirm that MED is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.**

The Company confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

8 **Please confirm that MED's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of MED with delegated authority from the board to respond to ASX on disclosure matters.**

The Company confirms that its response has been approved by the board of directors.

If you require any further information, please do not hesitate to contact me.

Yours sincerely

PETER LEE
Chief Financial Officer
& Company Secretary

19 December 2016

Peter Lee
Company Secretary
Merlin Diamonds Limited
Level 1, 42 Moray Street
South Melbourne VIC 3205

By email: peterl@axisc.com.au

Dear Mr Lee

Merlin Diamonds Limited ("MED"): aware query

ASX Limited ("ASX") refers to the following:

A. MED's announcement entitled "Blue diamond recovered at Merlin diamond mine" lodged on the ASX Market Announcements Platform and released at 9:47 am on 15 December 2016 (the "Announcement"), disclosing the recovery of a blue diamond from its diamond operation in the Northern Territory.

B. MED's announcement entitled "Placement" lodged on the ASX Market Announcements Platform and released at 14 December 2016 (the "Placement"), advising that MED has received applications for 144.8 million shares at a price of 1.3 cents per share for a total consideration of $1,882,500.

C. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

D. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

> "*an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity"*

and section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information"*.

E. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- *It would be a breach of a law to disclose the information;*

- *The information concerns an incomplete proposal or negotiation;*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- *The information is generated for the internal management purposes of the entity; or*
- *The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed."

F. ASX's policy position on the concept of "*confidentiality*", which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. In particular, the Guidance Note states that:

> *"Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."*

Having regard to the above, ASX asks MED to respond separately to each of the following questions and requests for information:

1. When did discussions in regards to the Placement commence and when did those discussions conclude.
2. Does MED consider the recovery of the blue diamond to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
3. If the answer to question 2 is "no", please advise the basis for that view.
4. If the answer to question 2 is "yes", when did MED first become aware of the information?
5. If the answer to question 2 is "yes" and MED first became aware of the information before the relevant date, did MED make any announcement prior to the relevant date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe MED was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps MED took to ensure that the information was released promptly and without delay.
6. Please confirm that the information was not known to the Company prior to discussions in relation to the Placement concluding.
7. Please confirm that MED is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
8. Please confirm that MED's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of MED with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than half an hour before the start of trading (ie before 9.30 a.m. AEDT) on Thursday, 22 December 2016. If we do not have your response by then, ASX will have no choice but to consider suspending trading in MED's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, MED's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at cheng.tang@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to MED's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that MED's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in MED's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

[Sent electronically without signature]

Cheng Tang
Adviser, Listings Compliance (Melbourne)
P: (03) 9617 8706
E: cheng.tang@asx.com.au